

Message Text

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ACTION AF-10

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-03 INR-10 NSAE-00 ICA-11 TRSE-00 XMB-02
OPIC-03 SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-07 CEA-01 L-03 H-01 PA-01 /106 W
-----043186 121455Z /45

R 110856Z AUG 78
FM AMEMBASSY ACCRA
TO SECSTATE WASHDC 5047
INFO AMEMBASSY COTONOU
AMEMBASSY LOME
AMEMBASSY LONDON

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LONDON FOR SEITZ

EO 11652: NA
TAGS: EINV, BGEN, BDIS, GH, US
SUBJ: VALCO SITUATION: STATUS REPORT

REF: ACCRA 4044

1. SUMMARY. REFTEL REPORTED KAISER ALUMINUM PRESIDENT'S MAY 12 MEETING WITH THE HEAD OF STATE ACHEAMPONG, INTER ALIA, TO PRESS FOR GOG COMPENSATION FOR DIRECT AND INDIRECT FINANCIAL LOSSES ESTIMATED AT DLS 31.8 MILLION. THESE LOSSES AT THE DLS 200 MILLION VALCO ALUMINUM REDUCTION PLANT NEAR ACCRA RESULTED FROM TWO POWER OUTAGES WITHIN NINE MONTHS. THIS CABLE UPDATES THIS MAJOR US INVESTOR'S SITUATION IN GHANA IN THE WAKE OF THE JULY 5 CHANGE OF GOVERNMENT. IN SUM, VALDO'S FINANCIAL AND LABOR PROBLEMS HAVE EASED. A LATE AUGUST MEETING HAS BEEN REQUESTED WITH HEAD OF STATE AKUFFO, BUT TO GIVE THE NEW GOVERNMENT BREATHING SPACE, VALCO WILL PROBABLY MOVE RELATIVELY
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SLOWLY ON THE COMPENSATION ISSUE. NEVERTHELESS, THE GOVERNMENT'S REACTION COULD PROVE TO BE AN IMPORTANT TEST OF ITS ATTITUDE TOWARD FOREIGN PRIVATE INVESTMENT.
END OF SUMMARY.

2. FOR BACKGROUND ON VALCO (OWNED 90 PERCENT BY KAISER AND 10 PERCENT BY REYNOLDS), THE MAJOR US INVESTMENT IN

GHANA, AND THE FOREMOST SYMBOL OF US-GHANAIAN ECONOMIC COOPERATION, SEE REFTEL. THIS UPDATE IS BASED ON AN AUGUST 8 MEETING BETWEEN THE ECONOMIC AND POLITICAL COUNSELORS AND THE OUTGOING AND NEWLY-ARRIVED VALDO MANAGING DIRECTORS, WILLIAM ARMANTROUT AND KENNETH J. MCADAMS.

3. PRODUCTION. THE VALCO MILL HAS FIVE POTLINES, FOUR OF WHICH "FROZE UP" WITH THE APRIL 30 POWER OUTAGE, REDUCING PRODUCTION TO 20 PERCENT OF CAPACITY. IN RE-OPENING THE FROZEN POTLINES, VALCO IS ADHERING TO THE SCHEDULE REPORTED REFTEL. A SECOND POTLINE WAS REOPENED JULY FIRST, AND A THIRD AND FOURTH ARE TO BE REOPENED SEPTEMBER FIRST AND NOVEMBER FIRST RESPECTIVELY, WITH THE FIFTH TO FOLLOW IN EARLY 1979.

4. LABOR. VALCO HAS BEGUN REHIRING SOME OF THE 500 PERMANENT EMPLOYEES PREVIOUSLY TERMINATED. VALCO'S THREE-YEAR CONTRACT WITH ITS EMPLOYEES' UNION CALLED FOR A WAGE REVIEW AT ITS JULY 1, 1978 MID-POINT. IN THE WAKE OF THE APRIL 30 DAMAGE AND REDUCTION OF THE WORK-FOR E, THE UNION SETTLED FOR CONTINUATION OF THE CONTRACT AT THE OLD WAGE RATES, THAT IS WITH NO PAY INCREASES.

5. PROFITABILITY/EXPORT BONUS. THE CONTINUING DEVALUATION OF THE CEDI (ACCRA 6228) HAS REDUCED VALCO'S LOCAL OPERATING COSTS, PARTICULARLY LABOR COSTS, AND LIMITED OFFICIAL USE

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THE SQUEEZE ON PROFITS HAS EASED. HOWEVER, THE GOG IS CONTESTING THE COMPANY'S ENTITLEMENT TO A 20 PERCENT EXPORT BONUS. VALCO RECEIVED A FIRST PAYMENT OF CEDIS 1.9 MILLION, BUT A SECOND 3.9 MILLION PAYMENT WAS RE-CALLED AND THE GOG NOW SEEKS TO RECOVER THE FIRST 1.9 MILLION. VALCO'S LAWYERS ARE ARGUING THAT VALCO IS ELIGIBLE FOR THE BONUS. (THE GOG HAS NOT YET WITHDRAWN THE EXPORT BONUS IN LIGHT OF THE CHANGED EXCHANGE RATE, BUT WE EXPECT THEY MAY WELL DO SO IN THE FUTURE.)

6. COMPENSATION. KAISER PRESIDENT CORNELL MAIER PLANS A LATE-AUGUST VISIT TO GHANA AND HAS WRITTEN THE HEAD OF STATE, LT. GEN. AKUFFO, TO REQUEST AN APPOINTMENT. THE PROBLEMS OF RELIABLE AND CONSTANT POWER, DESKIBED PARAS 5A AND 5 REFTEL, REMAIN OF CONCERN AND THE KAISER AND VALCO OFFICIALS PLAN TO PURSUE THE ISSUE OF COMPENSATION FOR THE DLS 31.0 MILLION COST TO VALCO OF THE JULY 1977 AND APRIL 1978 POWER OUTAGES. HOWEVER, THEY MAY DECIDE TO PUSH MORE SLOWLY PARTICULARLY ON THE ISSUE OF COMPENSATION, WHILE THE HEAD OF STATE AND HIS SMC MEMBERS AND STAFF ARE STILL FINDING THEIR WAY WITH THEIR NEW RESPONSIBILITIES.

7. COMMENT. VALCO'S PROBLEMS HAVE GREATLY EASED SINCE THE MAY 12 MEETING WITH FORMER HEAD OF STATE ACHEAMPONG, REPORTED RETEL, AND THE POSSIBILITY OF AN ADVERSE EFFECT ON US-GHANAIAN RELATIONS APPEARS TO HAVE CONSIDERABLY DIMINISHED. HOWEVER, VALCO INTENDS TO PURSUE ITS CLAIM FOR COMPENSATION AND RESOLVING THIS CLAIM COULD PROVE AN IMPORTANT TEST OF THE NEW GOVERNMENT'S ATTITUDE TOWARD PRIVATE INVESTMENT HERE. HOLMES

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: REPORTS, ALUMINUM
Control Number: n/a
Copy: SINGLE
Draft Date: 11 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978ACCRA06527
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780330-0553
Format: TEL
From: ACCRA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780871/aaaachet.tel
Line Count: 124
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3dcd8264-c288-dd11-92da-001cc4696bcc
Office: ACTION AF
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 78 ACCRA 4044
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 20 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1761371
Secure: OPEN
Status: NATIVE
Subject: VALCO SITUATION: STATUS REPORT
TAGS: EINV, BGEN, BDIS, GH, US, VALCO
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/3dcd8264-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014